THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CAREY M. STITES

October 7, 2010

DOCKET NO. 2010-5-G

ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

DIRECT TESTIMONY OF CAREY M. STITES

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2010-5-G

IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Carey M. Stites. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Program Manager of the Gas Department for the South Carolina Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia. I was employed at that time in the electric and gas utility industry and gained twenty-five years of experience in this field. In mid October 2004, I joined ORS in my present position. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") relating to natural gas issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will present ORS's findings and recommendations for South Carolina Electric & Gas Company ("SCE&G") or ("Company") regarding the Company's:

1) natural gas purchasing policies for the twelve (12) month review period of August 2009 through July 2010, as well as the Company's ability to serve the firm customers for the upcoming winter season;

2) recovery of its purchased gas cost through the purchased gas adjustment ("PGA") or gas cost recovery mechanism;

3) updated calculation of the demand cost of gas ("DCOG") allocation factors;

4) hedging program; and other matters.

Q. WHAT ARE ORS'S FINDINGS WITH REGARD TO THE COMPANY'S GAS PURCHASING POLICIES DURING THE REVIEW PERIOD?

A. During the review period, SCE&G was responsible for purchasing natural gas commodity supplies from multiple sources, managing its contracts with three (3) upstream interstate pipelines for firm transportation and storage capacity assets, including Southern Natural Gas Company ("Southern"), Transcontinental Gas Pipeline Corporation ("Transco") and Carolina Gas Transmission Corporation ("CGTC"), as well as operations of the Company's two (2) liquefied natural gas ("LNG") facilities. It is ORS's finding that SCE&G purchased natural gas commodity supplies, managed its transportation and storage capacity assets, and operated its LNG facilities to meet firm customers' needs and provide reliable service at costs consistent with Commission approved tariffs.

Q. PLEASE COMMENT ON ORS'S REVIEW TO ENSURE THAT NATURAL GAS SUPPLIES AND CAPACITY ASSETS ARE READILY AVAILABLE TO FIRM CUSTOMERS DURING EXTREMELY COLD WEATHER.

A. ORS reviewed SCE&G's management of its supply, upstream transportation and storage capacity assets, its two LNG plants, as well as its ability to reliably deliver gas to meet firm customers' peak demand. In addition, ORS reviewed the Company's contracted levels for supply, interstate capacity for firm transportation and storage service, and its ability to deliver gas to the firm end-user during extreme cold weather. ORS's review finds that SCE&G met its firm customers' needs in a reliable manner during the review period. It is also ORS's opinion that the Company is prepared to meet next winter's projected firm customers' requirements in a reliable manner.

Q. PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY PROCEDURES APPROVED BY THIS COMMISSION.

A. The Commission approved SCE&G's gas cost recovery mechanism in Order No. 2005-653, dated November 8, 2005. In that order, a change to a two-part cost of gas recovery mechanism was approved. That mechanism involves: 1) a commodity component which is calculated to recover the commodity cost of gas purchased; and 2) a demand component which is calculated to recover the associated capacity cost. The demand charges include the fixed charges by upstream pipelines for transportation and storage services. The current "Purchased Gas Adjustment, Firm Gas Only" tariff sheets were approved by this Commission in Order No. 2009-910, dated December 29, 2009.

Q. PLEASE DISCUSS THE OPERATION OF THE TWO-PART COST OF GAS RECOVERY MECHANISM.

A. All firm customers are charged the same Firm Commodity Benchmark cost. However, the Demand Charge cost component is calculated for each customer class (Residential, Small/Medium General Service, and Large General Service) based on a fifty-fifty percent (50%-50%) weighting of Peak Design Day Demand ("PDDD") and Annual Forecast Sales volumes. In computing the Demand Charge component for the firm customers, seventy-five percent (75%) of the revenue generated from capacity release of upstream assets, as well as net revenues from interruptible sales and transportation service are credited against the demand charges. Added together, these two components, (i.e. the commodity and demand costs) equal the PGA factor for each firm customer class.

Q. DOES ORS AGREE WITH THE PROPOSED DCOG ALLOCATION FACTORS UPDATED FOR THE COMPANY'S CURRENT FORECAST AND THEIR IMPLEMENTATION EFFECTIVE FOR THE FIRST BILLING CYCLE IN JANUARY 2011?

A. Yes. The Company's demand cost of gas factors are developed to allocate demand costs between rate classes in proportion to how the rate classes impact demand requirements and utilize SCE&G's natural gas system. ORS has reviewed the calculations, updated for the Company's current annual sales and peak design day demand forecast, and agrees with the proposed demand cost of gas factors. ORS also agrees to the Company's proposal to implement these DCOG allocation factors effective for the first billing cycle in January 2011.

Q. DURING THE REVIEW PERIOD, DID SCE&G FILE WITH THE COMMISSION MONTHLY CHANGES IN THE PGA FACTORS RESULTING FROM THE TWELVE (12) MONTH ROLLING FORECAST OF GAS COSTS?

A. Yes. Under the provisions of Order No. 2006-679, SCE&G is allowed to make monthly adjustments in its PGA factors as supplier or capacity gas costs change after the Company completes an updated monthly forecast if there is a "material difference" for any customer class equal to or greater than $0.01 per therm. In Commission Order No.

2009-910, the Commission found that the monthly adjustment procedure and modification procedure for the total cost of gas factors as adopted in the above referenced Docket should be maintained subject to the following modifications:

a) The amount designated as a "material difference" is increased from an amount "equal to or greater than $0.01 per therm" to an "amount greater than $0.04 per therm."

b) If the calculated difference is greater than $0.04 per therm, then the Company is required to adjust its rates.

c) If the calculated difference is less than or equal to $0.04 per therm, then the Company has the discretion to adjust rates if it believes there would be a reasonable impact to customer bills.

d) The criteria set forth in (a) and (b) are to be applied by customer class and not by component within customer class.

In this review period, the Company filed for changes in its PGA factor in seven (7) of the twelve (12) months. ORS's review found the Company changed the factors during the review period in a manner consistent with the current Commission approved tariffs and Commission Orders.

Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PURCHASED GAS ADJUSTMENT CLAUSE FOR THE REVIEW PERIOD?

A. ORS finds that SCE&G administered and recovered its gas costs during the review period in a manner consistent with the current Commission approved tariffs and Commission Orders.

Q. WHAT ARE THE RESULTS OF SCE&G'S HEDGING PROGRAM?

As stated and shown in ORS witness Mr. Barnette's testimony in Exhibit RHB-5, the balance resulting from SCE&G's hedging program during this twelve (12) month review period, August 2009 through July 2010, has added $10,696,051 to the Company's cost of gas. It is the opinion of ORS that the Company operated its hedging program under the terms approved in Commission Order No. 2006-679 and modified by Commission Order No. 2008-546.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.